

TOPIC: FY2015-2016 FINANCIAL AID DISCUSSION

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I. SUMMARY

The Commission is charged with allocating state financial aid funds appropriated in the Long Bill. The request for funds for FY2015-16 is roughly \$136 million, of which \$100 million is allocated through the undergraduate, need-based model, \$2.6 million is allocated to proprietary institutions, \$7.6 to graduate need-based aid; \$21 million to work-study, and \$5 million for merit aid. The November 1st budget request for FY2015-16 does not include an increase to state funded financial aid after a historic investment for the current year and the importance of focusing new funding toward a smooth transition to the new funding allocation model for operating funds for institutions. Allocation for work-study and merit aid will remain the same for the coming year, assuming there is not an increase in state funding.

The Commission approved a new allocation model for undergraduate, need-based aid referred to as the Completion Incentive Grant model in January of 2013 for implementation in FY2013-14. The goal of the undergraduate need-based model is to help create incentives for institutions to achieve the goals of the Master Plan. The principles of the new method include supporting timely completion, targeting aid to the neediest students, treating Pell eligible students similarly regardless of institution type (flattening of the tiers), ensuring predictability for financial aid administrators from one year to the next, and encouraging student progress incentives. In February of each year, the Commission reviews the allocation model and relevant data to determine whether there are any necessary adjustments needed for the following year's allocations. Then, in March an action item will be brought to the Commission with any requested adjustments to the allocation model.

The purpose of this agenda item is to generate Commission discussion about the various aid allocation methodologies for the need based aid and to seek input from the Commission concerning any other options and Commission preferences so staff can bring a final model to the Commission in March for approval.

II. BACKGROUND

Annually, the Commission is charged with allocating state funded financial aid funds to the institutions. Financial aid is targeted to provide support to the students least likely to succeed. The model provides a set amount for each Pell eligible FTE and increases the set amount by grade level to create incentives for institutions to provide supports that improve the retention and progress of Pell eligible students.

In Colorado, institutions maintain the flexibility to determine which students are most likely to succeed with the additional funding and thus each institution awards these funds to students

based on their own internal strategies. The Commission does not require that these funds follow the strategy of the allocation methodology used by the Commission to distribute funds to the institutions. Research suggests that need-based financial aid alone does not necessarily change student performance and outcomes. Students receiving need-based financial aid perform better with enhanced support services.

The Completion Incentive Grant model is in its second year of implementation in FY2014-15. The first year allocation included a hold harmless provision at the rate of inflation. The second year provided a minimum increase of 20 percent to each institution and an increase cap of 50 percent. With the significant increase in state financial aid funding for FY2014-15, the Commission approved increasing the set funding amount between grade levels by the rate of the overall increase in funding. This amount was roughly 38 percent. Appendix A includes the Final FY2014-15 allocation model and is important context for the FY 2015-2016 allocation.

To encourage timely completion, the model also includes an upper limit for advanced seniors. The original concept considered a maximum credit hour limit. After an analysis of the credit hours in the State Unit Record Data System (SURDS), staff from the institutions and the Department agreed that credit hour data was not the best way to capture timely completion. As a substitute, the commission approved using the Pell Lifetime Eligibility Unit (LEU) data included on federal financial aid processing documents. As a result, the advanced senior provision was delayed by one year to allow the Department to collect the Pell LEU data. The advanced senior adjustment will be included in the final FY2015-2016 allocations.

III. STAFF ANALYSIS

The Department has been actively engaged in soliciting feedback from the institutions specifically through the Financial Aid Advisory Committee and the Chief Financial Officers. And, through that process institutions have offered feedback on options for allocation methods for the funding that will be appropriated.

The most recent financial aid data reflects a six percent reduction in Pell eligible FTE enrollment statewide, (a reduction of 4,876.5 FTE from the previous year). This change reflects the normal attrition that occurs following the influx of enrollments during a recession as the economy recovers. The majority of institutions have fewer Pell eligible FTE than in FY2013-14. The most significant drops in FTE were at non-profit private schools and community colleges. See Appendix B for FTE comparisons by institution before the advanced senior limit is applied.

Below is a summary of the various allocation models discussed with the Financial Aid Advisory Committee and the CFOs. Each model includes a description of the model and pros and cons as discussed with these groups.

FY2015-16 DRAFT MODELS

For all models we assumed the following:

- flat state funding;
- Same grade level increment-\$276;
- FY2013-14 Pell-eligible FTE data;
- the advanced senior limit will be imposed by subtracting the number of FTE that have exceeded the lifetime Pell limit from the senior FTE calculation and calculate those FTE at the freshman rate (240.5 FTE, statewide); and,
- an advanced senior adjustment using the current Pell EFC.

Model 1 described below was shared with the financial aid advisory group and the Chief Financial Officers. As a result of feedback, models 2 and 3 were developed by staff to demonstrate hold harmless limits at the low end and growth caps at the upper end. The models presented in this item reflect input from institutional representatives; however, no one model is supported or opposed by all institutions.

Model 1:-Reflects the outcomes of the model run with the requested funding and the Pell-eligible FTE enrollment. The three institutions that received the minimum increase in FY2014-15 have reduced allocation projections in FY2015-16 .At the top end of the spectrum, five of the six institutions that received growth caps at 50 percent in FY2014-2015, see gains in FY2015-2016. *Pro: This approach acknowledges and recognizes changes in Pell eligible enrollment and retention. Con: This approach can challenge predictability for out years in the absence of additional funding because it redistributes aid.*

Models 2a and 2b: These models approach the FY2015-16 allocation and incorporate hold-harmless provisions to protect institutions with rapid reductions in Pell FTE. On the lower end, a backstop of -15 percent protects the two biggest outliers. Under the -10 percent scenario, five institutions benefit from a hold harmless provision. *Pro: This approach provides predictability for institutions to some degree and acknowledges institutions attracting and retaining Pell eligible students. Con: This approach does not necessarily provide incentives to institutions to retain Pell eligible students.*

Models 3a and 3b: These models are the same as Models 2a and 2b with regard to lower end hold harmless of -10 percent and -15 percent, respectively, with the addition of a growth cap of 15 percent. There are only four institutions that have growth projections above the upper limit in both models. *Pro: This approach offers predictability for institutions. Cons: From a policy standpoint, if the goal is to increase the attainment of Pell eligible populations, imposing growth caps on institutions meeting that goal does not seem to support the policy goal.*

These models are not exhaustive; they merely provide options for consideration by the Commission and to spur additional discussion. After discussion and input from the Commission during the February meeting, Department staff will synthesize the input and bring an action item to the March CCHE meeting recommending an allocation methodology.

IV. STAFF RECOMMENDATION

There is no recommendation at this time; this item is for discussion only.

ATTACHMENTS:

Model 1—Baseline

Model 2a—Hold Harmless at -15% with no growth cap

Model 2b—Hold Harmless at -10% with no growth cap

Model 3a—Hold Harmless at -15% with growth cap at 15%

Model 3b—Hold Harmless at -10% with growth cap at 15%

Appendix A—Final FY2014-2015 allocation model

Appendix B—Pell Eligible FTE change by grade level